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SUBJECT: NIGERIA: FOOD PRICE QUARTERLY

REF: LAGOS 1420

1. (U) Summary: Food prices in Nigeria have risen over the last twelve months. While official reports estimate an increase of below 20% for staple foods, nongovernmental food industry reports estimate staple foods increased between 20 - 60%. This increase has a disproportionate impact on the poor. Low crop yields and rising transportation costs were blamed for increased food prices.

2. (U) This is the first of a series of quarterly cables on food prices. The data covers the period from June - August 2004 to June - August 2005. End summary.

Our Impression: Shoppers Are Paying More

3. (U) The average shopper in Nigeria pays between 20-60% more for various staple food items than 2004, calculating for both inflation and naira fluctuations. Consulate personnel visits to Lagos markets including: Mile 12 (a wholesale market), Gbagada, Mushin and Ketu, revealed staple foods like a 50 kilogram (hereafter kg) bag of imported rice sold for naira 6,000 (USD 46) against naira 4,500 (USD 35) last year, an increase of 33%. Imported food items like frozen chicken and turkey sold for naira 4,000 (USD 31), as opposed to naira 2,500 (USD 19); an increase of 60%. A 10 kg carton of imported frozen fish sold for naira 5,000 (USD 38) as opposed to naira 3,750 (USD 29) in 2004, an increase of 33%.

4. (U) The average price of locally produced staple foods such as garri, bread, beans, plantains, and maize also rose. A 50 kg bag of garri, a cassava derivative, sold for naira 5,000 (USD 38) as opposed to naira 3,500 (USD 27), an increase of 43%. A standard loaf of bread was naira 150 (USD 1.12) as opposed to naira 120 (USD .90), an increase of 25%, as input costs for sugar and wheat, increased.

5. (U) Manufactured/finished food item prices also rose. The price of powdered milk, cocoa beverages, noodles and spaghetti rose slightly, while refined groundnut/vegetable oil increased by over 40% from naira 1,040 (USD 8) to naira 1,500 (USD 12) per 5 liter gallon. In addition, supermarkets experienced shortages of imported products like tea and selected biscuits, as a result of GON import bans on these items. Food industry experts told us import bans were clearly hurting the economy, adversely affecting living standards of average Nigerian consumers, all without spurring much in the way of new local production.

Official Reports Claim Moderate Price Increases

6. (U) Official reports show an upward price trend, but one less drastic than private sector experts outlined (Para 8). According to the Federal Office of Statistics (FOS), a 50Kg bag of wheat in June 2005 sold for naira 3,960 (USD 31) as opposed to naira 3,600 (USD 28) in June 2004, an increase of 10%. FOS data also showed a fall in price of a 50Kg bag of beans from naira 4,182 (USD 32) in June 2004 to naira 4,100 (USD 32) in June 2005, a decline of 2%. However, the FOS year-on-year average consumer price index (CPI) for July 2005 was 26.1%, a noticeable increase from the June 2005 (18.6%) and July 2004 (10.7%) figures. The Central Bank on November 1 said inflation in July and August rose sharply on a yearly basis to 26% and 28% driven essentially by food prices, which rose from 18% in June in a year on basis to 35.6% in July and 36.1% in August. These figures indicate that inflation rates remain well above the GON's single-digit target and IMF's 15 percent estimate for FY 2005.

7. (U) According to another section of the FOS' July report, the composite food index for the July 2005 was 159 points as opposed to 117 points in July 2004, an increase of 35%. The rise was attributable to increase in prices of rice, maize, millet, meat, seafood, salt and sugar, the FOS said. Between June and July 2005, this index ironically increased by only 5% in urban areas, but went up by 16%

(from 137 to 159 points) in rural areas. However, the "All Items Less Farm Produce" index (i.e. non-food index) only rose 0.3% over last year figures.

Private Group Measures a Steeper Price Hike

18. (U) In contrast, data from Financial Derivatives Company (FDC), a private sector consultancy firm, showed sharp increases in retail food prices, ranging from 50-100%. The highest increases were recorded in locally produced staples like garri and yam, which increased by 116% and 80% respectively between July 2004 and July 2005 (Yam and garri are the mainstays of the average southern Nigerian's diet). Similarly, bean prices increased by 41% from naira 5,120 (USD 39) to naira 7,200 (USD 55) for a 50Kg bag. Significant price increases were also recorded in imported products like sugar. According to FDC, a 50kg bag of imported refined sugar, rose from naira 3,800 (USD 29) to almost naira 9,000 (USD 69) between June and September 2005 before falling to naira 6,000 (USD 46). This resulted in a scarcity of sugar and subsequently higher prices of commodities like bread.

Higher Fuel Prices Lead to Higher Food Prices

19. (U) Both the FOS and FDC blame fuel price hikes for the rise in food prices. A liter of gasoline now sells for naira 65 (USD 0.5) as opposed to naira 50 (USD 0.4) early in the year. Experts said the 30% increase resulted in a 14% mark up in transportation costs which manufacturers and sellers of food products have passed on to consumers. (Note: FOS data showed that real wages and salaries declined by about 8% between January and December 2004, when fuel prices increased from naira 45 to naira 50. End note.)

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Households find it Difficult to Meet Food Needs
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110. (U) The FOS 2004 Core Welfare Indicator Questionnaire (CWIQ) Survey conducted from May to June 2004 with a random sampling of over 10,000 people stated that 53% of Nigerian households reported difficulty in meeting their household food needs. This was an increase of 4% since the FOS 2003 CWIQ report. According to the 2004 CWIQ report, two southern states, Abia and Cross Rivers, had the highest percentage of respondents reporting household food shortages with 91% for Abia State and 88% for Cross Rivers State. These figures depicted a significant decline in the economic health of households in those states.

111. (U) Comment: FOS and FDC data indicate that maintaining their current food basket will be a difficult challenge for many Nigerians should these upward price trends persist. Food price increases are compelling people to make tough economic decisions. Numerous low-income households have been forced to reduce their food consumption. If this trend in food prices continues, it will have a telling, negative effect on the national economy and on the psyche of many Nigerians about the benefits of economic reforms such as petroleum price deregulation. End comment.

112. This cable was cleared by Embassy Abuja.

Browne